

CITY OF ELKADER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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CITY OF ELKADER

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Garms	Mayor	Jan 2008
Steve McCorkindale	Mayor Pro tem	Resigned Mar 31, 2007
Betty Landis	Mayor Pro tem	Jan 2010
Ken Seney	Council Member	Jan 2008
Rob Frieden	Council Member (Appointed Apr 9, 2007)	Jan 2008
Daryl Koehn	Council Member	Jan 2010
Roger Buchholz	Council Member	Jan 2010
Jennifer Cowsert	City Administrator/Clerk	Indefinite
Marla Reimer	Assistant Administrator/Deputy Clerk	Indefinite
John Gnagy	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elkader's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006, as discussed in the preceding paragraph,


the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregated remaining fund information of the City of Elkader as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2008, on our consideration of the City of Elkader's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elkader's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2006, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 23, 2008
Elkader, Iowa


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of Elkader

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elkader provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Please keep in mind, however, that information presented for the fiscal year ended June 30, 2006 has not been subjected to audit.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 28.9%, or approximately \$ 761,000 from fiscal 2006 to fiscal 2007. Property tax increased approximately \$ 44,000, bond and note proceeds increased \$ 481,000, and proceeds from Block Grants increased \$ 179,000.

Disbursements of the City's governmental activities increased 3.8%, or approximately \$ 110,000 in fiscal 2007 from fiscal 2006. Capital projects, community and economic development, and debt service disbursements increased approximately \$ 284,000, \$ 3,000 and \$ 39,000 respectively.

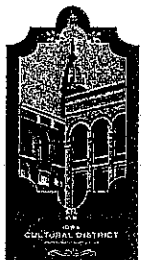
The City's total cash basis net assets increased 58.1%, or approximately \$ 390,000 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$ 367,000 and the assets of the business type activities increased approximately \$ 23,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of



the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provides additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off as a result of this year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and

social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$ 461,000 to \$ 828,000. The analysis that follows focuses on the changes in cash basis net assets from government activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 347	335
Operating grants, contributions and restricted interest	159	172
Capital grants, contributions and restricted interest	430	257
General receipts:		
Property tax	650	606
Local option sales tax	101	90
Franchise tax	41	38
Unrestricted interest on investments	46	10
Bond and note proceeds	1,587	1,108
Other general receipts	34	18
Total receipts	3,395	2,634
Disbursements:		
Public safety	180	313
Public works	378	408
Health and social services	1	3
Culture and recreation	363	417
Community and economic development	103	100
General government	122	120
Debt service	195	156
Capital projects	1,697	1,412
Total disbursements	3,030	2,929
Change in cash basis net assets before transfers	356	(295)
Transfers, net	11	94
Change in cash basis net assets	367	(201)
Cash basis net assets beginning of year	461	662
Cash basis net assets end of year	\$ 828	461

The City's total receipts for governmental activities increased 28.9%, or approximately \$ 761,000. The cost for all programs increased approximately \$ 110,000, or 3.8%. Capital project spending (primarily the High Street project) increased \$ 285,000. The significant increase in receipts was due primarily to a \$ 479,000 increase in bond and note proceeds and a \$ 173,000 increase in capital grants.

City property tax receipts increased approximately \$ 44,000 in 2007. Property taxes are budgeted to increase less than a \$ 1,000 in 2008.

The cost of all governmental activities this year was \$ 3.039 million compared to \$ 2.929 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 2.103 million because some of the cost was paid by those directly benefited from the programs (\$347,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 590,000). Overall the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$ 764,000 to approximately \$ 936,000, principally due to receiving grant proceeds to complete the High Street project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 792,000 in tax (some of which could only be used for certain programs) and other receipts such as bond and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 387	392
Sewer	234	190
Capital grants	10	0
General receipts:		
Unrestricted interest on investments	4	5
Bond and note proceeds	287	0
Total receipts	<u>922</u>	<u>587</u>
Disbursements:		
Water	743	357
Sewer	145	146
Total disbursements	<u>888</u>	<u>503</u>
Change in cash basis net assets before transfers	34	84
Transfers, net	<u>(11)</u>	<u>(94)</u>
Change in cash basis net assets	23	(10)
Cash basis net assets beginning of year	<u>211</u>	<u>221</u>
Cash basis net assets end of year	<u>\$ 234</u>	<u>211</u>

Total business type receipts for the fiscal year were \$ 922,000 compared to \$ 587,000 last year. This significant increase was due primarily to receipt of \$ 287,000 in state revolving loan funds. Total disbursements for the year increased by \$ 385,000 due mainly to the completion of the water portion of the High Street project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elkader completed the year, its governmental funds reported a combined balance of \$ 827,596, an increase of nearly \$ 367,000 above last year's total of \$ 460,836. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 56,616 from the prior year to \$ 165,622. This amount is equal to camper fees recorded in 2007.

The Capital Project, Keystone Bridge Fund, was established in the previous fiscal year to account for a maintenance project on the historic Keystone Bridge. At the end of the fiscal year, the cash balance was \$ 92,175, a decrease of \$ 14,179 from the previous year. A total of \$ 39,170 was spent on the project, while revenues consisted of a \$ 20,121 Iowa Department of Transportation grant and interest from a certificate of deposit of \$ 5,170.

The Capital Project, High Street Fund, was established in the previous fiscal year to account for the sewer/paving project on High Street. At the end of the fiscal year, the cash balance was \$ 338,690, an increase of \$ 340,046. These proceeds will be used to assist in financing the completion of the project. Over \$ 1.657 million was spent on the project in 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 39,294 to \$ 62,004 due primarily to costs of the water portion of the High Street project exceeding bond proceeds and grants by \$ 56,134.

The Sewer Fund cash balance increased by \$ 62,709 to \$ 172,166 due primarily to an increase in sewer rates, which increased sewer revenues by \$ 43,316.

BUDGETARY HIGHLIGHTS

The City amended its budget once during fiscal 2007. The amendment was approved on May 29, 2007 and resulted in an increase in operating disbursements of \$ 1,748,943. Nearly 89% of this increase related to the High Street paving/sewer project.

The City's receipts were \$ 346,611 more than budgeted. This was primarily

due to the uncertainty of when draws on the Community Development Block Grant and the State Revolving Fund Loan related to the High Street Project were going to occur.

Total disbursements were \$ 96,815 less than the amended budget. The actual disbursements for the capital projects function were \$ 357,522 less than budgeted. This was primarily due to \$ 353,821 of the High Street project being charged to the business type activities function. As a result, the City exceeded the amount budgeted in the business type activities function by \$ 304,689. Additionally, the City exceeded the amounts budgeted in the culture and recreation and debt service functions due to not including cemetery and library savings activity in the budget process and additional interest on the SRF loan.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$ 4,732,181 in bonds and notes outstanding, compared to \$ 3,053,902 last year, as shown below

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2007	2006
General obligation bonds	\$ 1,875	\$ 1,385
Revenue notes	2,857	1,669
	<u>\$ 4,732</u>	<u>3,054</u>

Debt increased as a result of issuing general obligation bonds and revenue notes for the High Street water, sewer and paving projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can carry to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1,875,000 is significantly below its constitutional debt limit of \$ 2,667,000. However, the City has outstanding development agreements of \$ 433,389 which brings its constitutional debt to \$ 2,308,389 still less than the \$ 2,667,000 debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Elkader's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. Inflation is again creeping into the picture. Fuel prices have increased 15% from June, 2006 to June, 2007 and there doesn't appear to be an end in sight. Increased fuel prices affect the cost of the entire range of City services. The City has been informed

that the City lagoon is inadequate and that a mechanical wastewater treatment plant will need to be constructed at a cost of approximately \$ 5 million. Although the City is reviewing all possible avenues of financing, certainly there will continue to be upward pressure on water and sewer rates.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$ 3.188 million, a decrease of 19.7% from the final 2007 budget. Property taxes are budgeted to increase \$ 371. The tax levy rate actually decreased 0.5%. Charges for service is budgeted to increase by over \$ 96,000, while loans and grants are budgeted to decrease by over \$ 842,000. Disbursements are budgeted to decrease by approximately \$ 592,000 as the majority of the water/sewer project was completed in 2007 and only preliminary work is expected to occur in 2008 on the wastewater treatment plant.

If these estimates are realized the City's budgeted cash balance is expected to increase approximately \$ 32,000 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Jennifer Cowser, City Administrator and Clerk, 207 North Main Street, Elkader, Iowa 52043-0427

BASIC FINANCIAL STATEMENTS

CITY OF ELKADER
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2007

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 180,147	21,304	4,376	0	(154,467)	0	(154,467)
Public works	378,571	161,290	122,100	0	(95,181)	0	(95,181)
Health and social services	1,000	0	0	0	(1,000)	0	(1,000)
Culture and recreation	362,892	156,289	32,669	0	(173,934)	0	(173,934)
Community and economic development	102,784	0	0	0	(102,784)	0	(102,784)
General government	122,027	7,957	0	0	(114,070)	0	(114,070)
Debt service	195,230	0	0	0	(195,230)	0	(195,230)
Capital projects	1,696,610	0	0	430,404	(1,266,206)	0	(1,266,206)
Total governmental activities	3,039,261	346,840	159,145	430,404	(2,102,872)	0	(2,102,872)
Business type activities:							
Water	742,938	387,127	0	10,271	0	(345,540)	(345,540)
Sewer	145,249	233,704	0	0	0	88,455	88,455
Total business type activities	888,187	620,831	0	10,271	0	(257,085)	(257,085)
Total	\$ 3,927,448	967,671	159,145	440,675	(2,102,872)	(257,085)	(2,359,957)
General Receipts:							
Property and other city tax levied for:							
General purposes					425,568	0	425,568
Tax increment financing					134,308	0	134,308
Debt service					90,194	0	90,194
Local option sales tax					101,462	0	101,462
Franchise fee					40,595	0	40,595
Unrestricted interest on investments					45,791	3,759	49,550
Bond and note proceeds (net of \$ 22,211 issuance costs)					1,586,581	287,416	1,873,997
Miscellaneous					34,458	0	34,458
Transfers					10,675	(10,675)	0
Total general receipts and transfers					2,469,632	280,500	2,750,132
Change in cash basis net assets					366,760	23,415	390,175
Cash basis net assets beginning of year					460,836	210,705	671,541
Cash basis net assets end of year					\$ 827,596	234,120	1,061,716
Cash Basis Net Assets							
Restricted:							
Streets					\$ 44,911	0	44,911
Library					73,212	0	73,212
Debt service					15,768	0	15,768
Cemetery					54,006	0	54,006
Other					43,212	0	43,212
Unrestricted					596,487	234,120	830,607
Total cash basis net assets					\$ 827,596	234,120	1,061,716

See notes to financial statements.

Exhibit B

CITY OF ELKADER
STATEMENT OF CASH BASIS RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2007

	Capital Projects			Nonmajor	Total
	General	Keystone Bridge	High Street		
Receipts:					
Property tax	\$ 302,395	0	0	213,367	515,762
Tax increment financing	0	0	0	134,308	134,308
Other city tax	40,595	0	0	101,462	142,057
Licenses and permits	5,269	0	0	0	5,269
Use of money and property	49,738	5,170	0	2,625	57,533
Intergovernmental	37,558	20,121	410,283	155,165	623,127
Charges for service	292,863	0	0	0	292,863
Special assessments	385	0	0	0	385
Miscellaneous	16,855	0	322	20,284	37,461
Total receipts	745,658	25,291	410,605	627,211	1,808,765
Disbursements:					
Operating:					
Public safety	150,024	0	0	30,123	180,147
Public works	181,762	0	0	196,809	378,571
Health and social services	1,000	0	0	0	1,000
Culture and recreation	317,567	0	0	45,325	362,892
Community and economic development	0	0	0	102,784	102,784
General government	95,401	0	0	26,626	122,027
Debt service	0	0	0	195,230	195,230
Capital projects	0	39,470	1,657,140	0	1,696,610
Total disbursements	745,754	39,470	1,657,140	596,897	3,039,261
Excess (deficiency) of receipts over (under) disbursements	(96)	(14,179)	(1,246,535)	30,314	(1,230,496)
Other financing sources (uses)					
Note proceeds	0	0	1,586,581	0	1,586,581
Operating transfers in	64,067	0	0	118,589	182,656
Operating transfers out	(7,355)	0	0	(164,626)	(171,981)
Total other financing sources (uses)	56,712	0	1,586,581	(46,037)	1,597,256
Net change in cash balances	56,616	(14,179)	340,046	(15,723)	366,760
Cash balances beginning of year	109,006	106,354	(1,356)	246,832	460,836
Cash balances end of year	165,622	92,175	338,690	231,109	827,596
Cash Basis Fund Balances					
Reserved for debt service	\$ 0	0	0	15,768	15,768
Unreserved:					
General fund	165,622	0	0	0	165,622
Special revenue funds	0	0	0	161,335	161,335
Capital projects funds	0	92,175	338,690	0	430,865
Permanent fund	0	0	0	54,006	54,006
Total cash basis fund balances	\$ 165,622	92,175	338,690	231,109	827,596

See notes to financial statements.

CITY OF ELKADER
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2007

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 387,127	233,704	620,831
Operating disbursements:			
Business type activities	583,596	145,249	728,845
Excess (deficiency) of operating receipts over (under) operating disbursements	(196,469)	88,455	(108,014)
Non-operating receipts (disbursements):			
Intergovernmental	10,271	0	10,271
Interest on investments	2,737	1,022	3,759
Revenue note proceeds	287,416	0	287,416
Debt service	(159,342)	0	(159,342)
Net non-operating receipts	141,082	1,022	142,104
Excess (deficiency) of receipts over (under) disbursements	(55,387)	89,477	34,090
Other financing sources (uses):			
Operating transfers in	27,548	0	27,548
Operating transfers out	(11,455)	(26,768)	(38,223)
Total other financing sources (uses)	16,093	(26,768)	(10,675)
Net change in cash balances	(39,294)	62,709	23,415
Cash balance beginning of year	101,298	109,407	210,705
Cash balance end of year	\$ 62,004	172,116	234,120
Cash Basis Fund Balances			
Unreserved	\$ 62,004	172,116	234,120

See notes to financial statements.

CITY OF ELKADER

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Elkader is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elkader has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and Clayton County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Capital Projects:

The Keystone Bridge Fund is used to account for all costs

related to the Keystone Bridge rehabilitation project.

The High Street Fund is used to account for all costs related to the High Street sewer and paving project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Elkader maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government; its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 145,000	74,590	119,000	87,930	264,000	162,520
2009	135,000	70,140	122,000	84,360	257,000	154,500
2010	160,000	65,693	127,000	80,700	287,000	146,393
2011	170,000	60,160	130,000	76,890	300,000	137,050
2012	175,000	54,015	133,000	72,990	308,000	127,005
2013-2017	835,000	138,735	731,000	302,400	1,566,000	441,135
2018-2022	255,000	38,582	849,000	185,910	1,104,000	224,492
2023-2027	0	0	720,000	54,660	720,000	54,660
Total	\$ 1,875,000	501,915	2,931,000	945,840	4,806,000	1,447,755

The revenue notes were issued from the State Revolving Fund of Iowa Finance Authority. At June 30, 2007, the City had \$ 73,819 remaining on their \$ 2,931,000 line of credit with Iowa Finance Authority. The remaining line of credit had been drawn down by March 7, 2008.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75%

of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are determined by state statute. The City's contribution to IPERS for the year ended June 30, 2007, was \$ 22,051 equal to the required contribution for the year. Additionally the City paid \$ 11,244 for prior year contributions, resulting from an IPERS audit.

(5) Compensated Absences

City employees accumulate a limited amount of earned by unused vacation, sick leave and personal hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized by the City until used or paid. The City's approximate liability for earned vacation, sick leave and personal payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 19,000
Sick leave	21,000
Personal	<u>3,000</u>
Total	<u>\$ 43,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007, is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 64,067
Special Revenue:	Enterprise:	
Road Use Tax	Water	7,071
	Sewer	7,071
		<u>14,142</u>
Employee Benefits	General	7,355
	Special Revenue:	
	Emergency	7,996
	Enterprise:	
	Water	4,384
	Sewer	4,442
		<u>24,177</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	65,015
	Enterprise:	
	Sewer	15,255
		<u>80,270</u>
Enterprise:	Special Revenue:	
Water	Urban Renewal Tax	
	Increment	27,548
Total		<u>\$ 210,204</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 260.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2007.

(9) Development Agreement

The City has entered into two development agreements to assist various urban renewal projects.

With the first agreement, the City has agreed to rebate 50% of the incremental tax paid by the developer in exchange for certain public improvements related to the development of a manufacturing facility in the City industrial park made by the developer. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning July 1, 2005. The total to be paid by the City under this agreement is not to exceed \$ 500,000. During the year ended June 30, 2007, the City rebated \$ 48,949 of incremental tax under this agreement. The maximum remaining balance at June 30, 2007, was \$ 408,189.

With the second agreement, the City has agreed to rebate \$ 8,400 annually of the incremental tax paid by the developer in exchange for certain public improvements related to the development of a campground adjacent to the City park made by the developer. The incremental tax to be received by the City will be rebated for a period of five years beginning July 1, 2005. The total to be paid by the City under this agreement will be \$ 42,000. During the year ended June 30, 2007, the City rebated \$ 8,400 of incremental tax under this agreement. The remaining balance at June 30, 2007, was \$ 25,200.

(10) Commitments and Contingencies

Construction Contracts - The City has entered into two construction contracts with outstanding balances of \$ 608,855 at June 30, 2007. These contracts will be financed with the remaining balance of \$ 338,690 in the Capital Projects, High Street Fund, the remaining \$ 73,819 line of credit from the State Revolving Fund and the issuance of \$ 405,000 in Sewer Revenue Bonds approved February 11, 2008.

Guaranty Agreement - The City is a co-guarantor with several Elkader businesses on a term loan from the United States Department of Agriculture, Rural Development to a nonprofit organization that provides day care services to the community. The loan is secured by a first mortgage on the real estate owned by the nonprofit organization. This guaranty would require the City to make the required loan payments. As of June 30, 2007, the guaranteed loan balance was \$ 199,043, and the nonprofit organization was current with the required payments.

(11) Subsequent Events

In July, 2007, the City entered into construction contracts totaling

\$ 224,500 for rehabilitation of the Keystone Bridge. This project will be financed with remaining balance of \$ 92,175 in the Capital Projects, Keystone Bridge Fund and the issuance of \$ 405,000 in revenue bonds (See Note 10).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELKADER
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 515,762	0	515,762	484,939	484,939	30,823
Tax increment financing	134,308	0	134,308	140,560	140,560	(6,252)
Other city tax	142,057	0	142,057	90,412	110,412	31,645
Licenses and permits	5,269	0	5,269	45,925	45,925	(40,656)
Use of money and property	57,533	3,759	61,292	7,900	39,766	21,526
Intergovernmental	623,127	10,271	633,398	206,185	1,785,131	(1,151,733)
Charges for service	292,863	620,831	913,694	845,308	845,308	68,386
Special assessments	385	0	385	290	290	95
Miscellaneous	37,461	0	37,461	8,250	24,857	12,604
Total receipts	1,808,765	634,861	2,443,626	1,829,769	3,477,188	(1,033,562)
Disbursements:						
Public safety	180,147	0	180,147	181,457	181,457	1,310
Public works	378,571	0	378,571	401,990	421,859	43,288
Health and social services	1,000	0	1,000	1,000	1,000	0
Culture and recreation	362,892	0	362,892	215,982	333,864	(29,028)
Community and economic development	102,784	0	102,784	113,153	140,553	37,769
General government	122,027	0	122,027	122,348	122,348	321
Debt service	195,230	0	195,230	155,552	185,552	(9,678)
Capital projects	1,696,610	0	1,696,610	500,400	2,054,132	357,522
Business type activities	0	888,187	888,187	583,498	583,498	(304,689)
Total disbursements	3,039,261	888,187	3,927,448	2,275,380	4,024,263	96,815
Excess (deficiency) of receipts over (under) disbursements	(1,230,496)	(253,326)	(1,483,822)	(445,611)	(547,075)	(936,747)
Other financing sources, net	1,597,256	276,741	1,873,997	492,242	493,824	1,380,173
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	366,760	23,415	390,175	46,631	(53,251)	443,426
Balances beginning of year	460,836	210,705	671,541	815,181	815,181	(143,640)
Balances end of year	\$ 827,596	234,120	1,061,716	861,812	761,930	299,786

See accompanying independent auditor's report.

CITY OF ELKADER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 1,748,883. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ELKADER
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2007

	Special Revenue							Permanent Cemetery Perpetual	Total
	Road Use Tax	Urban Renewal Tax Increment	Employee Benefits	Emergency	Local Option Sales Tax	Library Trust	Debt Service	Care	
Receipts:									
Property tax	\$ 0	0	115,177	7,996	0	0	90,194	0	213,367
Tax increment financing	0	134,308	0	0	0	0	0	0	134,308
Other city tax	0	0	0	0	101,462	0	0	0	101,462
Use of money and property	0	0	0	0	0	991	0	1,634	2,625
Intergovernmental	122,100	0	0	0	27,435	0	0	5,630	155,165
Miscellaneous	0	0	0	0	0	18,884	0	1,400	20,284
Total receipts	122,100	134,308	115,177	7,996	128,897	19,875	90,194	8,664	627,211
Disbursements:									
Operating:									
Public safety	0	0	30,123	0	0	0	0	0	30,123
Public works	143,076	0	53,733	0	0	0	0	0	196,809
Culture and recreation	0	0	28,645	0	0	2,993	0	13,687	45,325
Community and economic development	0	56,859	0	0	45,925	0	0	0	102,784
General government	0	0	26,626	0	0	0	0	0	26,626
Debt service	0	0	0	0	0	0	195,230	0	195,230
Total disbursements	143,076	56,859	139,127	0	45,925	2,993	195,230	13,687	596,897
Excess (deficiency) of receipts over (under) disbursements	(20,976)	77,449	(23,950)	7,996	82,972	16,882	(105,036)	(5,023)	30,314
Other financing sources (uses):									
Operating transfers in	14,142	0	24,177	0	0	0	80,270	0	118,589
Operating transfers out	0	(92,563)	0	(7,996)	(64,067)	0	0	0	(164,626)
Total other financing sources (uses)	14,142	(92,563)	24,177	(7,996)	(64,067)	0	80,270	0	(46,037)
Net change in cash balances	(6,834)	(15,114)	227	0	18,905	16,882	(24,766)	(5,023)	(15,723)
Cash balances beginning of year	51,745	15,114	(227)	0	24,307	56,330	40,534	59,029	246,832
Cash balances end of year	\$ 44,911	0	0	0	43,212	73,212	15,768	54,006	231,109
Cash Basis Fund Balances									
Debt service	\$ 0	0	0	0	0	0	15,768	0	15,768
Unreserved:									
Special revenue funds	44,911	0	0	0	43,212	73,212	0	0	161,335
Permanent fund	0	0	0	0	0	0	0	54,006	54,006
Total cash basis fund balances	\$ 44,911	0	0	0	43,212	73,212	15,768	54,006	231,109

See accompanying independent auditor's report.

Schedule 2

CITY OF ELKADER
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
2004 General obligation refunding	Nov 1, 2004	2.55-3.05%	\$ 365,000	215,000	0	85,000	130,000	5,958
2004 TIF refunding	Nov 1, 2004	2.55-4.40%	1,110,000	1,040,000	0	25,000	1,015,000	39,615
2004 Water revenue refunding	Nov 1, 2004	2.55-4.40%	170,000	130,000	0	20,000	110,000	4,105
Sewer construction	Aug 1, 2006	4.10-4.95%	620,000	0	620,000	0	620,000	23,523
				<u>\$ 1,385,000</u>	<u>620,000</u>	<u>130,000</u>	<u>1,875,000</u>	<u>73,201</u>
Revenue notes:								
Sewer plan and design	Mar 15, 2006	0%	105,000	95,425	0	95,425	0	0
Water	Mar 8, 2005	3.00%	1,935,000	1,573,477	277,487	78,000	1,772,964	52,325
Sewer	Nov 2, 2006	3.00%	1,150,000	0	1,084,217	0	1,084,217	13,586
				<u>\$ 1,668,902</u>	<u>1,361,704</u>	<u>173,425</u>	<u>2,857,181</u>	<u>65,911</u>

See accompanying independent auditor's report.

Schedule 3

CITY OF ELKADER
BOND AND NOTE MATURITIES
June 30, 2007

General Obligation Bonds									
Year Ending June 30,	General Obligation		Urban Renewal Tax		Water Revenue		Sewer Construction		Total
	Refunding		Increment Financing (TIF)		Refunding				
	Issued Nov 1, 2004		Refunding		Issued Nov 1, 2004		Issued Aug 1, 2006		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2008	2.80%	\$ 70,000	2.80%	\$ 25,000	2.80%	\$ 20,000	4.10%	\$ 30,000	145,000
2009	3.05	60,000	3.05	25,000	3.05	20,000	4.15	30,000	135,000
2010		0	3.25	105,000	3.25	20,000	4.20	35,000	160,000
2011		0	3.45	110,000	3.45	25,000	4.25	35,000	170,000
2012		0	3.65	115,000	3.65	25,000	4.30	35,000	175,000
2013		0	3.80	120,000		0	4.35	35,000	155,000
2014		0	3.95	120,000		0	4.40	40,000	160,000
2015		0	4.10	125,000		0	4.45	40,000	165,000
2016		0	4.25	130,000		0	4.50	40,000	170,000
2017		0	4.40	140,000		0	4.60	45,000	185,000
2018		0		0		0	4.70	45,000	45,000
2019		0		0		0	4.80	50,000	50,000
2020		0		0		0	4.85	50,000	50,000
2021		0		0		0	4.90	55,000	55,000
2022		0		0		0	4.95	55,000	55,000
Total		<u>\$ 130,000</u>		<u>\$ 1,015,000</u>		<u>\$ 110,000</u>		<u>\$ 620,000</u>	<u>1,875,000</u>

(continued)

CITY OF ELKADER
BOND AND NOTE MATURITIES
June 30, 2007

Revenue Notes						
Year Ending June 30,	Water		Sewer		Total	
	Issued Mar 8, 2005		Issued Nov 2, 2006			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2008	3.00%	\$ 80,000	3.00%	\$ 39,000	119,000	
2009	3.00	78,000	3.00	44,000	122,000	
2010	3.00	81,000	3.00	46,000	127,000	
2011	3.00	83,000	3.00	47,000	130,000	
2012	3.00	85,000	3.00	48,000	133,000	
2013	3.00	88,000	3.00	50,000	138,000	
2014	3.00	91,000	3.00	51,000	142,000	
2015	3.00	93,000	3.00	53,000	146,000	
2016	3.00	96,000	3.00	54,000	150,000	
2017	3.00	99,000	3.00	56,000	155,000	
2018	3.00	102,000	3.00	58,000	160,000	
2019	3.00	105,000	3.00	60,000	165,000	
2020	3.00	108,000	3.00	61,000	169,000	
2021	3.00	112,000	3.00	63,000	175,000	
2022	3.00	115,000	3.00	65,000	180,000	
2023	3.00	118,000	3.00	67,000	185,000	
2024	3.00	122,000	3.00	69,000	191,000	
2025	3.00	125,000	3.00	71,000	196,000	
2026		0	3.00	73,000	73,000	
2027		0	3.00	75,000	75,000	
Total		\$ 1,781,000		\$ 1,150,000	2,931,000	

See accompanying independent auditor's report.

CITY OF ELKADER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Iowa Finance Authority:			
Capitalization Grants for			
Clean Water State			
Revolving Funds	66.458	CS-192324-01	\$ 734,614
U.S. Department of Housing and			
Urban Development:			
Iowa Department of Economic			
Development:			
Community Development Block			
Grants/State's Program	14.228	06-WS-033-05	466,176
		04-WS-028-03	10,271
			<u>476,447</u>
Total			<u>\$ 1,211,061</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elkader and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Elkader, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated May 23, 2008. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Elkader's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkader's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Elkader's ability to initiate, authorize, record, process, or report financial data reliably

in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Elkader's financial statements that is more than inconsequential will not be prevented or detected by the City of Elkader's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Elkader's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkader's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those matters.

The City of Elkader's responses to finding in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elkader's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elkader and other parties to whom the City of Elkader may report. This report is

not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elkader during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

May 23, 2008

Diehl, Donald & Company
Diehl, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Elkader, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2007. The City of Elkader's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Elkader's management. Our responsibility is to express an opinion on the City of Elkader's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elkader's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Elkader's compliance with those requirements.

In our opinion, the City of Elkader complied, in all material respects with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Elkader is responsible for establishing and maintaining effective internal control over compliance with requirements

of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elkader's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elkader's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

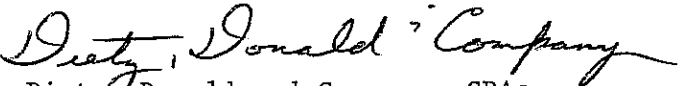
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elkader and other parties to whom the City of Elkader may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

May 23, 2008


Dietz, Donald and Company, CPAs
FEIN 42-1172392

CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles; because we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006.
- (b) No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds and CFDA Number 14.228-Community Development Block Grants/State's Programs.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (i) The City of Elkader did not qualify as a low-risk auditee.

CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

CITY OF ELKADER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 - Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the culture and recreation, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We did amend the budget in May, however, the amounts of the increases and the functions amended were apparently not correct. We will take more care when amending the budget in the future.

Conclusion - Response accepted.

IV-B-07 - Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-07 - Travel Expense - No disbursements of City money for travel expenses of spouses of City officials were noted.

IV-D-07 - Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve McCorkindale, Mayor Pro tem, Partner with Ehrhardt, Gnagy and McCorkindale	Legal fees paid to John Gnagy, City Attorney	\$ 260

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Mayor Pro tem does not appear to represent a conflict of interest since total transactions with the individual were less than \$ 2,500 during the year.

- IV-E-07 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-07 - Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-07 - Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-07 - Revenue Bonds - The City has complied with the provisions of the revenue and bond resolutions.
- IV-I-07 - Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will discuss this with the bank to see if this is possible.

Conclusion - Response accepted.

- Iv-J-07 - Request for Proposal - The City did not send out requests for proposal in accordance with Chapter 11.6 of the Code of Iowa before employing a Certified Public Accountant to conduct your audit.

Recommendation - A minimum of three requests for proposal should be sent out and responses evaluated before engaging a firm to conduct your audit.

Response - We are located in a rural area, and are required by the Code of Iowa to have an audit only once every four years. Therefore, it is difficult to get responses to requests for proposal.

Conclusion - Even if responses are not obtained, a minimum of three requests should be sent out.

IV-K-07 - Library and Cemetery - The City accounts for the transactions of the Library and Cemetery in the City's General Fund. However, the Library and Cemetery have separate savings accounts and time certificates of deposit that have not been accounted for or reported by the City in the City's financial statements and reports. We have, however, included these accounts in these financial statements.

Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by an City officer, employee or other person, and which show the receipt, use, and disposition of all City property."

Recommendation - The City's Library and Cemetery should determine the status of the separate accounts for accountability and reporting purposes. If the Library and Cemetery wish to maintain custody and control over the separate accounts, they should be established as legally separate entities from the City, with Articles of Incorporation and by-laws. Otherwise the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance as necessary, to resolve the issue.

Response - We will look into this.

Conclusion - Response accepted.

IV-L-07 - Accrued Interest on the Sale of General Obligation Bonds-The bond resolution authorizing and providing for the issuance of the general obligation bonds requires that any accrued interest on the sale of bonds be recorded in the Debt Service Fund. The accrued interest was recorded in the Capital Projects Fund, High Street Account.

Recommendation - The City should transfer \$ 1,019 from the Capital Projects Fund, High Street Account to the Debt Service Fund to comply with the bond resolution.

Response - We will do this.

Conclusion - Response accepted.

IV-M-07 - Annual Financial Report - The 2007 Annual Financial Report submitted to the State does not accurately reflect the ending fund balances recorded in the City's financial records.

Recommendation - The Annual Financial Report should accurately reflect ending fund balances recorded in the City's financial records.

Response - We will use the fund balances from our 2007 audit when preparing the 2008 Annual Financial Report.

Conclusion - Response accepted.